

## The British Medical Association's response to the consultation on the discount rate methodology

August 2021



## FOREWORD

The BMA is a professional association and trade union representing and negotiating on behalf of all doctors and medical students in the UK. It is a leading voice advocating for outstanding health care and a healthy population. It is an association providing members with excellent individual services and support throughout their lives.

Most BMA members are members of the NHS Pension Schemes. This is a response from the BMA to the proposed changes to the discount rate methodology consultation and the proposals to reform the SCAPE discount rate.

We would from the outset note our disagreement with the inherent approach taken by the Government. We have maintained since the cost floor breach was discovered in 2018 that the Government had to comply with the regulations agreed regarding this mechanism to ensure the value of the pension scheme was maintained for members within the set control limit.

We remain disappointed that the Government have shown no sign of addressing this cost floor breach and believe that amending this discount rate in a separate consultation to the cost control mechanism, whilst recognising the proposed impact this could have on the cost cap, ignores the fundamental issues experienced by members of the scheme that led to the cost floor breach in the first place.

It instead seeks to ensure that any risk of a further cost floor breach is greatly reduced, without in turn fairly reducing the risk of a cost ceiling breach. We are particularly concerned that the Government has proposed 'significant changing circumstances' of their choosing as a point by which they would intervene within the SCAPE discount rate.

We have made these, as well as other concerns around the undermining of the stability objective within the discount rate clear in our responses below. We would also urge the Treasury to reconsider these proposals and focus upon the cost cap mechanism and discount rate, and instead pursue a tailored solution that addresses the cost floor breach in 2018 and ensures members of the NHS Pension Scheme remain incentivised and are provided fair value for their contributions to the scheme.

## RESPONSE TO CONSULTATION

**Question 1: Do you agree that these are the correct objectives for the SCAPE discount rate? If not, please explain why and specify any alternative objectives that you think should be included.**

We would agree with the objectives set out for the SCAPE discount rate, and welcome the emphasis placed upon the 'stability' objective. We are supportive of any proposals that ensure that volatile and reactive measures are ignored in favour of steady longer-term approaches.

We would however note our disappointment that this emphasis on stability has not translated to other facets of this consultation, as well as the proposals within the separate consultation on the cost cap mechanism, and would hope that the Treasury reconsiders how to ensure they are better able to meet this objective.

**Question 2: Do you agree that these are the most appropriate methodologies that should be considered? If not, please specify any alternative methodologies that should be considered and how they would fit with the Government's proposed objectives.**

We would consider the GDP methodology to be the most appropriate, in preference to the STPR. We are concerned that the STPR could be subject to alterations made by the Government, which would in turn favour any approach they may wish to make with the SCAPE discount rate, thus we do not believe it to be an appropriate methodology.

Long-term GDP projections are based on those that most accurately reflect the economic expectations and situations expected within the UK economy. Therefore, the BMA would favour the utilisation of long-term GDP projections, with some caveats, as noted later in the consultation response.

**Question 3: What are the advantages and disadvantages of a SCAPE discount rate methodology based on expected long-term GDP? If this methodology is adopted, should any of the modifications (allowing for short-term GDP projections, allowing for actual experience) be considered?**

As stated previously, we believe the methodology of long-term GDP is reasonable in terms of it supporting the SCAPE discount rate to meet the stability objective and would be our suggested approach of the two available options.

However, we would also caution that there must be an objective basis whereby the GDP is measured on a set basis, rather than at random points open to the choice of the Government. We feel that this would strengthen the stability of the scheme by having a set point at which the methodology is employed.

We note that once every four years is suggested, which would be welcomed. However, we also note the Government leave open the possibility of their intervening based on 'significant changing circumstances'. We would absolutely reject such a proposal and would highlight this would merely serve to undermine the stability objective set out at the beginning of the consultation.

The discount rate should not be subject to short-term events of the Government's choosing, but rather long-term thinking that reflects the fact that the pension scheme is a long-term commitment from both employers and employees that requires stability and a fair, enduring approach. We would highlight the current Treasury proposals do not meet this stability objective and would recommend they be reconsidered on this point.

There is therefore some merit in considering whether the SCAPE discount rate should incorporate GDP growth at different durations, as this reflects a better and more accurate approach. However, we feel that, overall, this would add additional complexity and spurious accuracy, for little additional benefit.

Equally, whilst taking into account an element of actual experience would better reflect the actual cost along with any over or under funding, we do not believe it is helpful to do so in the context of public sector pensions and the objectives for the SCAPE discount rate.

Whilst the SCAPE discount rate is due to be reviewed as part of the 2020 valuation cycle, with new rates being implemented from April 2024, we would note the OBR's current long-term GDP projection of CPI+1.8%. If this long-term GDP projection were incorporated in the SCAPE discount rate, it could lead to significantly increased costs.

**Question 4: What are the advantages and disadvantages of a SCAPE discount rate methodology based on the STPR? If this methodology was adopted, should any modifications (allowing for the public service pension context or allowing for long-term uncertainties) be considered?**

We feel that the STPR should not be considered as a methodology. As highlighted above, with it potentially being subject to the Government influence, it cannot be construed as fair and objective, and would be liable to undermine the stability objective, as well as the 'fair reflection of costs' objective with it being open to the Government intervention at their own choosing.

**Question 5: Which SCAPE discount rate methodology do you recommend, and why?**

As noted, we would recommend the GDP methodology. This would be the most stable and fair measure to utilise for the SCAPE discount rate and would not be open to the Government interference. However, we would highlight that this recommendation comes with the caveat that this methodology must be employed in a fair manner and not be subject to short-term thinking and events. As currently proposed, this is not the case.

Furthermore, we note at 5.23 the proposal to utilise the SCAPE discount rate as a measure of economic performance for any 'economic check' that would be implemented within this cost cap mechanism. As highlighted in our response to that separate consultation, we overwhelmingly oppose any introduction of an economic measure, regardless of how stable the SCAPE discount rate becomes.

We would note that, when joining the pension scheme, a member is going to be joining for 20-30 years (or even beyond) in terms of their working life. The pension scheme itself in turn must commit to providing value to the member throughout their working life, thereby ensuring they wish to remain a part of the scheme. The long-term undertaking of the member towards the NHS needs to be properly reciprocated by the pension scheme.

This commitment of ensuring value to the member though has been broken throughout the last 13 years, with numerous changes made in 2008 and 2015 that greatly reduced the value of pension available to members of the scheme. This is before the utilisation of the Annual Allowance Tax and Lifetime Allowance Tax that has greatly reduced the value of the pension scheme to its members, particularly those doctors at the higher end of the salary scale.

The implementation of the economic measure, regardless of how fair and stable we can ensure the discount rate becomes, would further reduce the safeguarding of the value of the scheme to its members, and we reject the notion that the scheme should look to respond to short and medium economic changes that could reverse swiftly without then being addressed within the scheme.

This concern is heightened by the Treasury's current proposal for the SCAPE discount rate and its proposed measure for the economic check that the Government could intervene based on 'significant changing circumstances', in effect providing them with a blank cheque to make changes as they see fit. This would greatly undermine the stability of both the SCAPE discount rate and the scheme itself.

Membership of the pension scheme is continued over decades, and should be safeguarded over this long-term period, and not be subject to reactive decisions based on short term events. These changes would have profound long-term consequences on the value of the scheme to members and would be inappropriate given the short-term nature of these fluctuations.

**Question 6: Are there any equalities impacts of changes to the SCAPE discount rate methodology that the Government should consider?**

Again, given that this is being proposed as the 'economic check' for the cost cap control mechanism, we would dispute the assertion made in this consultation that the equalities impact of such a move, and therefore the equalities impact of the SCAPE discount rate, cannot be considered within this consultation.

We would emphasise our disappointment that the Government have chosen in any case to separate these two consultations and would re-emphasise in our response here the potential for the stability of both the SCAPE discount rate and the overall scheme to be undermined should these changes go ahead.

As currently proposed, with the SCAPE discount rate being open to the Government responses to 'significant changes' and with it being employed within the cost cap mechanism as an economic measure, it emphasises that these measures seem to have been geared towards purely seeking to avoid a cost floor breach and in turn have created conditions that would heighten the chances of a cost ceiling breach with little justification. This, alongside the proposed economic check, will have a negative impact on younger members of the scheme whose value of pension by the time they are able to receive it will be left at the whim of short-term economic fluctuations.

Furthermore, the BMA's position would be that we have to ensure and improve the attractiveness of the scheme to older members to retain them not only within the scheme but within the NHS. These measures, in allowing the Government to make reactive and potentially volatile changes at points to the SCAPE discount rate and in turn the scheme, would prevent this and would greatly limit the value of the scheme to older members.

**Question 7: Do you agree with the proposal for reviews of the SCAPE discount rate to be aligned with the scheme valuation cycle?**

Although we don't object in principle with the reviews of the SCAPE discount rate being aligned with the scheme valuation cycle, or for this being undertaken every 4 years, we strongly oppose the suggestion that the SCAPE discount rate is used as an economic check. We are concerned that this will not only will this provide a mechanism for the Government to mitigate or even remove a cost floor breach in its entirety, but by aligning the cycles, this provides greater opportunity for the process to be unduly influenced by the Government.

We do agree with the need for a settled sequence and therefore agree in principle that it makes sense to align the SCAPE discount rate review with the valuation cycle, provided this is not utilised as an economic check.

This concern is heightened by the Government setting aside the opportunity for 'significant changing circumstances' to be used as a pretext for them to intervene whenever they wish. This absolutely goes against the stability objective in allowing the Government to alter a long-term scheme as a result of short-term events. Furthermore, it undermines the objective of a fair reflection of costs if the Government can make changes as and when they see fit. We would therefore emphasise our opposition to this element of the proposal.

We believe that the purpose of this alignment should be to negate the necessity to conduct an out-of-cycle review and therefore query the need for the 'significant changing circumstances' clause.